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SUBJECT: CHAVEZ: CHINA MY OLD FRIEND

REF: A) CARACAS 03928 B) CARACAS 03826

Classified By: ACTING POLITICAL COUNSELOR MARK WELLS FOR 1.4 (D)

Summary

11. (U) Venezuelan President Hugo Chavez visited China from December 21-26 and met with Chinese President Hu Jintao, Premier Wen Jiabao, ex-president Jiang Zemin, and other senior GOC and business officials. Chavez claimed that Venezuela has become the number one destination for Chinese investment in Latin America and estimated that in 2005 the trade relationship would reach almost USD 3 billion. Chavez announced the signing of eight bilateral agreements focused on increasing cooperation in the energy, agriculture and technology fields. He also said Chinese Vice-President Zeng Qinghong and Chinese National Petroleum Company (CNPC) officials would visit Venezuela January 27-29 to begin the implementation of the signed agreements. While praising Mao's dictum about every country learning to walk on its own two feet, Chavez again criticized U.S. "imperialism" and praised China as a big country that does not act like an empire. End Summary.

Second Best Is Good Enough

12. (U) President Hugo Chavez visited China December 21-26, meeting with Chinese President Hu Jintao, Premier Wen Jiabao, ex-president Jiang Zemin, and other senior GOC and business officials. Chavez signed eight agreements in Beijing that will reportedly lay the foundation for giving Chinese oil companies preferential access to oil and gas projects in Venezuela as well as in the development of infrastructure projects. (Note: The Chinese National Petroleum Corporation (CNPC) currently operates two oil fields in Venezuela.) The press has reported that China and Venezuela also reaffirmed a commitment to the development of a second orimulsion (a water/extra heavy crude mixture used for electrical generation) plant by the Chinese in Venezuela.

13. (U) With respect to oil exports, Chavez said Venezuela would look to build an oil pipeline through Panama to facilitate oil exports to China. After 100 years of U.S. domination, said Chavez, he was going to put Venezuela's oil exports at China's disposition, especially now that China had become the world's second largest importer of crude oil. Chavez said Venezuela would continue selling oil to the U.S., "but not only to them." (Foreign Minister Ali Rodriguez later told reporters that Venezuela would increase production to accommodate increasing sales to China so as not to disrupt service to its "traditional partners.")

14. (U) China's Minmetal and Venezuela's Corpozulia also agreed to increase coal production in Zulia State and to explore the possibility of an alliance to expand the iron and steel industry in Guayana. Separately, the GOV approved a credit for USD 40 million to buy Chinese farm tools and machinery for small- and medium-sized farms in Venezuela, while the Chinese agreed to loan Venezuela USD 700 million for house construction. The Chinese also agreed to increased investment for the construction of a Venezuelan national railroad.

Mao and Bolivar: The Best of Friends

15. (U) Speaking at a press conference, Chavez asserted that national heroes Mao Tse Tung and Simon Bolivar would have been friends if they had known each other "because their thoughts, despite the distance in time and geography, sprang from the same source." If Bolivar had lived a few more decades, Chavez asserted, he would have ended up a socialist. Citing Mao's dictum about every country learning to walk on its own two feet, Chavez said Latin America had paid a high price to be free and not follow the decisions coming from the Washington consensus and the International Monetary Fund (IMF). He again criticized U.S. "imperialism" and called capitalism "the path to hell," while complimenting China for

being a big country without being imperialistic. Chavez described himself as "Bolivarian, Christian, and Maoist." He also reaffirmed Venezuela's "one China" policy and opposition to Taiwanese independence.

Comment

16. (C) In trying to follow his "multi-polar world" foreign policy, Chavez is seeking support from countries he sees as sympathetic to his anti-U.S. message. He is also playing his oil card. While Chavez clearly wants to diversify Venezuela's oil export market away from the U.S., we doubt that China would be the optimal partner from a strictly business point of view. The cost of shipping heavy Venezuelan crude to China, much less the costs associated with tooling Chinese refineries to receive it, would be large. However, purely economic considerations seem to figure less and less in the policy decisions of the GOV. The future of Venezuela's patented orimulsion fuel is a case in point. Stating that it wished to optimize the state's return on each barrel of extra heavy crude produced, the GOV moved in the past year to terminate orimulsion expansion deals with the Canadians and the Italians. Despite this, as noted above, Chavez has reportedly agreed to the development of a second orimulsion plant by the Chinese. If this project moves ahead, it will be a clear indication of the political bent of Venezuela's energy policy.
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